

## Message Text

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PAGE 01 TEHRAN 01288 01 OF 03 081723Z

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ACTION NEA-10

INFO OCT-01 ISO-00 L-03 NSC-05 PM-04 CIAE-00 DODE-00

INR-07 NSAE-00 PA-01 USIA-06 PRS-01 SP-02 OMB-01 EB-07

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AGR-05 FRB-03 XMB-02 CEA-01 CIEP-01 STR-04 INT-05

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P 081303Z FEB 76

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC PRIORITY 5493

LIMITED OFFICIAL USE SECTION 1 OF 3 TEHRAN 1288

EO 11652: NA

TAGS: EFIN, ECON, IR

SUB: BUDGET PRESENTATIONS- REVISION FOR CURRENT IRANIAN YEAR  
1354 AND PRELIMINARY FOR YEAR 1355 (BEGINNING MARCH 21)

REFS: 75 TEHRAN 007

1. SUMMARY: IRANIAN BUDGETS PRESENTED TO THE MAJLIS FEBRUARY 3  
BY PRIME MINISTER CONTAINED SIGNIFICANT, SURPRISING CHANGES IN  
LIQUIDATION OF LAST IRANIAN YEAR'S (1353) BUDGET, A 4.2 PERCENT  
INCREASE IN CURRENT YEAR'S BUDGET (1354) AND A 21.8 PERCENT  
INCREASE IN THE PRELIMINARY BUDGET PROPOSED FOR 1355 (WHICH ENDS  
MARCH 21, 1977). 1354 BUDGET IS INCREASED BY \$1.5 BILLION AND  
BALANCED BY MEANS AS YET UNCLEAR IN CURSORY READING. 1355 BUDGET  
BREAKS NEW IRANIAN GROUND WITH A DEFICIT OF \$2097 BILLION IN ADDI-  
TION TO IDENTIFIED NEW BORROWINGS OF \$617 MILLION. CENTRAL GOVERN-  
MENT REVENUES DEPEND LESS ON OIL (74 PERCENT) AND MORE ON TAXES  
(16 PERCENT) THAN IN PREVIOUS YEARS. EXPENDITURES INCREASE 14  
PERCENT FOR CENTRAL GOVERNMENT, CAPITAL BUDGET INCREASES 34 PER-  
CENT AND FOREIGN ASSISTANCE DECLINES BY 40 PERCENT. BUDGET SHIFTS  
FAVOR EDUCATION, HOUSING, ROADS AND RURAL COOPERATIVES. PRIME

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PAGE 02 TEHRAN 01288 01 OF 03 081723Z

MINISTER'S SPEECH CATERED TO ALL ELEMENTS OF IRANIAN SOCIETY

EXCEPT THOSE PURSUING CORRUPTION, PROFITEERING, WASTE AND LETHARGY. FORECASTED REAL GROWTH OF 17 PERCENT THIS AND NEXT IRANIAN YEAR COINCIDENT WITH THE CONQUERING OF INFLATION WAS COMPARED WITH THE BARELY POSITIVE PERFORMANCE OF MAJOR INDUSTRIAL NATIONS. MAJOR THEME WAS THAT IRANIAN ECONOMY DEPARTING FROM PHASE OF UNCONTROLLED ACCELERATION, WITH ITS ATTENDANT WASTE AND IMBALANCES, AND ENTERING PERIOD OF CRUISING SPEED, WHICH WILL PRESERVE SOCIO-ECONOMIC PROGRESS BUT WITH GREATER BALANCE, EFFICIENCY AND QUALITY. END SUMMARY.

2. PRESENTATION OF TWO-YEAR ROLLING BUDGET (FINAL FOR CURRENT YEAR 1354--MARCH 21, 1975 TO MARCH 20, 1976 AND PRELIMINARY FOR YEAR 1355 ENDING MARCH 20, 1977) TO THE LOWER HOUSE OF PARLIAMENT (MUNLIS) IS OVER THREE MONTHS LATE. SINCE INTRODUCTION OF FISCAL STRINGENCY BY SHAH AND PRIMIN HOVEYDA MID-1975; GOI OFFI-

CIALS HAVE CONSISTENTLY MAINTAINED THERE WOULD BE NO INCREASE IN AGGREGATE 1354 BUDGET. AND AS RECENTLY AS DECEMBER 28 PRIMIN WAS REPORTED REAFFIRMING THIS AND PREDICTING AN 18 PERCENT INCREASE IN THE 1355 BUDGET. THUS, THE INCREASES IN THE CONSOLIDATED (CENTRAL GOVERNMENT PLUS AUTONOMOUS AGENCIES AND ENTER-

PRISES) EXPENDITURE BUDGET OF 4.2 (PLUS \$1.5 BN) AND 21.8 (PLUS \$8.0 BN) PERCENT, RESPECTIVELY FOR 1354 AND 1355, WERE SURPRISING. THIS YEAR'S BUDGET DOCUMENT DIFFERED FROM THOSE OF PREVIOUS YEARS IN MANY RESPECTS. THE TEXT GIVES APPEARANCE OF RELATING ONLY TO 1355, SINCE IT CONTAINS NO REFERENCE TO THE 1354 BUDGET NOR TO THE 2.6 BILLION REDUCTION IN THAT OF 1353 SEEN IN ITS LIQUIDATION.

DOCUMENT'S NOTES MAKE MANY REFERENCES TO OTHER DOCUMENTS AND CORRESPONDENCE WHICH ALONG WITH INTRODUCTION OF NEW LATITUDES AND INCREASED DISCRETIONARY FUNDS GIVES CLEAR IMPRESSION THAT PERSIAN "FLEXIBILITY" CONTINUES VERY MUCH PRESENT IN THE FISCAL SPHERE. AIRGRAM WITH SUMMARY TABLES WILL BE SUBMITTED AFTER PARLIAMENT APPROVES BUDGETS. TRADITIONALLY, LATTER ACTION IS MORE FORM THAN SUBSTANCE AND FIGURES HEREIN REPORTED WILL BE CHANGED LITTLE IF AT ALL. CONVERSION OF RIAL TO DOLLAR IN THIS REPORT IS AT RLS 69.15 ALTHOUGH THIS RATE HAS PREVAILED ONLY SINCE SEPTEMBER 25, 1975, AFTER A 3.4 PERCENT RIAL DEVALUATION VIS-A-VIS THE DOLLAR SINCE JULY 22, 1975. THUS, SOME OF 1354 LIMITED OFFICIAL USE

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PAGE 03 TEHRAN 01288 01 OF 03 081723Z

BUDGET IS UNDERVALUED IN DOLLAR TERMS.

3. 1353 BUDGET: BUDGET TABLES REVEAL A SIGNIFICANT 179 BILLION RIAL (\$2.65 BILLION AT \$1 TO 67.5) REDUCTION FROM THE FINAL 2,082.6 BILLION RIAL (\$30.85 BILLION) FIGURE. THE REDUCED CONSOLIDATED BUDGET OF 1,903.4 BILLION RIALS (\$28.2 BILLION) INCLUDES A 145.6 BILLION RIAL (\$2,157 BILLION) REDUCTION IN OIL/GAS REVENUES WHICH WE ASSUME REFLECTS IN MOST PART RECEIPT IN 1353 OF ONLY 11

PAYMENTS FROM THE CONSORTIUM (TWO WERE RECEIVED THE FIRST MONTH OF 1354). A NEW AND AS YET UNCLEAR ENTRY IN THE EXPENDITURE BUDGET ALLOCATES \$2.6 BILLION FOR "SPECIAL AUTHORIZATIONS."

4. 1354 BUDGET:

A. AS CURRENT YEAR PROGRESSED WITH CONTINUED DECLINE IN OIL EXPORTS FISCAL OBSERVERS QUESTIONED HOW THE GOI COULD AVOID EITHER AN OVERALL BUDGET REDUCTION OR A DEFICIT OF AT LEAST ONE BILLION DOLLARS. AN INCREASE OF 4.2 PERCENT (\$1488 MILLION) IN THE CONSOLIDATED BUDGET WAS THEREFORE SURPRISING SINCE GOI OFFICIALS HERETOFORE MAINTAINED THERE WOULD BE NO OVERALL INCREASE. PLANNING AND BUDGET ORGANIZATION'S (PBO) MINISTER MAJIDI WAS QUOTED BY A U.S. CORRESPONDENT WHO ATTENDED HIS BUDGET BRIEFING AS SAYING "THERE IS NO REVISION IN THE CURRENT (1354) BUDGET." BUT THE BUDGET DOCUMENT'S TABLES RELATE TO 1354 AND 1355 AND CONTAIN THE REVISED 1354 FIGURES. SUSPICION OF "FUDGING" IS FED BY LACK OF CHANGE IN REVENUE FIGURES FOR OIL/GAS AND TAXES. IT WOULD BE AN UNLIKELY COINCIDENCE THAT THE NET OF A THIRTEENTH MONTH OIL PAYMENT AND REDUCED OIL EXPORTS WOULD LEAVE UNCHANGED THE OIL/GAS REVENUE FIGURE OF RLS 1480.8 BN (\$21.414 MILLION) APPROVED OVER A YEAR AGO.

B. THE CENTRAL GOVERNMENT REVENUE BUDGET, AT \$26.1 BILLION, IS REVISED UPWARD BY A MODEST RLS 12.8 BN (\$185 M), AN INCREASE DESCRIBED ONLY AS "PROJECTED REVENUE INCREASES." THE BULK OF REMAINING INCREASES ARE IN PUBLIC ENTERPRISES (\$359 MILLION), "OTHER AGENCIES" (\$52 MILLION) AND IN A REDUCED "DOUBLE COUNTING DEDUCTION" OF PUBLIC ENTERPRISES REVENUE (\$894 MILLION). ON EXPENDITURE SIDE WE FIND FOLLOWING INCREASES ACCOUNT FOR MOST OF \$1488 MILLION: CENTRAL GOVERNMENT OPERATIONAL (\$87 M) AND CAPITAL (\$98 M) BUDGETS; EXPENDITURES AND LOAN REPAYMENTS BY PUBLIC ENTERPRISES (\$359 M) AND A REDUCED "DOUBLE COUNTING DELIMITED OFFICIAL USE

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PAGE 04 TEHRAN 01288 01 OF 03 081723Z

DUCTION" OF PUBLIC ENTERPRISES EXPENDITURES (\$892 M).

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PAGE 01 TEHRAN 01288 02 OF 03 081727Z

ACTION NEA-10

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OES-03 EUR-12 ACDA-05 SIL-01 LAB-04 /103 W

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LIMITED OFFICIAL USE SECTION 2 OF 3 TEHRAN 1288

5. 1355:

THE CONSOLIDATED EXPENDITURE BUDGET FOR 1355 SHOWS AN INCREASE OVER THE REVISED 1354 BUDGETS OF 21.8 PERCENT. PRESS AND OFFICIAL COMMENT NEVER EXCEEDED 18 PERCENT IN THEIR GROWTH ESTIMATES, HENCE THE HIGHER FIGURE CAME AS A SURPRISE. THAT THE BUDGET CARRIES THE LARGEST FISCAL DEFICIT OF ALL TIME--\$2.7 BILLION IN NET BORROWINGS--WAS A LOGICAL RESULT. SUMMARY DATA ARE AS FOLLOWS:

	PERCENT CHANGE	
MILLION \$		REVISED 1354
A) REVENUES		

## 1) CENTRAL GOVERNMENT

TAXES	4477	42.9
OIL/GAS	20376	- 4.8
OTHER	999	29.4
FOREIGN LOANS	1157	433.3
SPECIAL REVENUES	638	77.8

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PAGE 02 TEHRAN 01288 02 OF 03 081727Z

TOTAL	27647	6.0
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## 2) GOVERNMENT ENTERPRISES:

REVENUES	37404	26.0
INTERNAL LOANS	227	- 6.5
FOREIGN LOANS	482	71.6

TOTAL	38113	26.2
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3) OTHER AGENCIES:	902	12.2
TOTAL 1) & 2) & 3)	66662	16.8
LESS DOUBLE COUNTING	23854	18.0
TOTAL REVENUE	42808	16.1

## B) EXPENDITURES

## 1) CENTRAL GOVERNMENT

DEVELOPMENT (INVESTMENT)	10113	34.0
CURRENT	17740	13.7
(OPERATIONAL)	17142	15.9
(INTERNAL DEBT)	300	- 41.9
(FOREIGN DEBT)	298	-1.0
TOTAL	27873	20.3

## FOREIGN INVESTMENT, CREDIT,

GRANTS	518	- 40.5
LESS UNREALIZED PAYMENT	- 285	--
FROM SPECIAL REVENUES	638	77.8
TOTAL CENTRAL GOVERNMENT	29744	14.0

## 2) GOVERNMENT ENTERPRISES:

OPERATIONAL & INVESTMENT	37462	25.5
DOMESTIC DEBT	584	108.2
FOREIGN DEBT	67	12.2
TOTAL	38113	26.2

3) OTHER AGENCIES:	902	12.2
TOTAL 1) & 2) & 3)	68759	20.5
LESS DOUBLE COUNTING	23854	18.0
TOTAL EXPENDITURES	44905	21.8

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PAGE 03 TEHRAN 01288 02 OF 03 081727Z

## 6. 1355 REVENUE:

CENTRAL GOVERNMENT REVENUE PROJECTIONS REVEAL A SHIFT IN COMPOSITION FROM THE REVISED 1354 BUDGET, AS FOLLOWS AS PERCENT OF TOTAL REVENUE: TAXES 16.2 VERSUS 12.0 IN 1354; OIL/GAS 73.7 VERSUS 82.1 OTHER 3.6 VERSUS 3.0 AND FOREIGN LOANS--4.2 VERSUS 0.8. NEITHER THE BUDGET PRESENTATION NOR COMMENTARY BY PRIMIN AND MAJIDI REVEAL GOI'S INTENTION ON COVERING THE OBVIOUS \$2.1 BILLION DEFICIT, BUT WE WOULD EXPECT MOST BY DOMESTIC FINANCING. WITH FIGURES EXPLICIT IN THE BUDGET INDICATING NEW BORROWINGS OF \$616 MILLION, TOTAL NET BORROWINGS REACH \$2.7 BILLION. LARGE INCREASE IN TAX REVENUES MAY SUGGEST NEW TAX LEGISLATION. THE OIL/GAS REVENUE IS BASED, ACCORDING TO GOI, ON 85 PERCENT UTILIZATION OF CONSORTIUM CAPACITY (E.G., 5,185,000 BPD). (COMMENT:

THIS EQUATES WITH HIGHER OF TWO EMBASSY PROJECTIONS.) REVENUES  
INCLUDE \$194 INTEREST AND EARNINGS ON FOREIGN LOANS AND INVESTMENT.

7. EXPENDITURES: AS SEEN FROM FOREGOING DATA, CENTRAL GOVERN-  
MENT EXPENDITURES INCREASES ARE 34 PERCENT FOR INVESTMENT, 15.9  
PERCENT FOR CURRENT OPERATIONS AND 14 PERCENT OVERALL. THERE IS  
NO INDICATION OF INCREASES IN WAGES OR PERSONNEL BENEFITS. THE  
LOW \$1.5 BILLION FOREIGN ASSISTANCE/INVESTMENT FIGURE, OFF  
40.5 PERCENT, IS SURPRISING BUT SHOULD BE ADEQUATE TO MEET  
COMMITMENTS GIVEN THE SLOW RATE MOST WOULD-BE RECIPIENTS UTI-  
LIZE GOI CREDITS. OF COURSE, THE PRIMUM LINKED THE LOWER  
LEVEL TO REDUCED OIL REVENUES WHICH HE SAID WAS CAUSED BY THE  
FOREIGN OIL COMPANIES. AT THIS POINT WE ARE UNABLE TO COMMENT  
ON THE 26 PERCENT INCREASE IN PUBLIC ENTERPRISE EXPENDITURES  
NOR ON THE DOUBLE COUNTING DEDUCTION PROCEDURE. UNFORTUNATELY,  
NO OVERALL INVESTMENT FIGURE FOR THE CONSOLIDATED BUDGET IS YET  
AVAILABLE. SIGNIFICANT SHIFTS BY MINISTRY BY PERCENT ARE:  
WAR (AT \$8.2 BILLION, 0)7 7.9) (NOTE: DOCUMENT PROVIDES ADDITIONAL  
\$314 MILLION FOR 1354 FROM 1353 CREDITS; FURTHER, EXPLICIT BUD-  
GET PROVISIONS USUALLY ACCOUNT FOR ONLY 75-80 PERCENT OF DEFENSE  
TOTAL); EDUCATION (PLUS 34.8); HEALTH, (-0.6); HOUSING (PLUS 35.3);  
AGRICULTURE (-7.4); ENERGY (PLUS 31.9); MINING (-13.5); ROADS  
(PLUS 28.8); AND RURAL COOPERATIVE (PLUS 29.2). A PBO GRAPH  
PRESENTS THE FUNCTIONAL SHARE OF CENTRAL GOVERNMENT BUDGET BY  
PERCENT AS:

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PAGE 04 TEHRAN 01288 02 OF 03 081727Z

	1354 (R)	1355
GENERAL	9.9	27.2
SOCIAL AFFAIRS	17.9	19.2
INVESTMENT ABROAD	9.8	5.1
ECONOMIC AFFAIRS	23.8	27.8
OTHERS	9.5	8.5

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PAGE 01 TEHRAN 01288 03 OF 03 081734Z

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ACTION NEA-10

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LIMITED OFFICIAL USE SECTION 3 OF 3 TEHRAN 1288

#### 8. SPECIAL PROVISIONS:

FIRST GLANCE AT BUDGET DOCUMENT'S USUAL LONG LISTING OF NOTES AND SPECIAL PROVISIONS REVEALS SOME OF PARTICULAR INTEREST, INTER ALIA:

- A) THE REVOLVING DISCRETIONARY FUND TO BE INCREASED FROM 50 TO 70 BILLION RIALS(\$1012.3 MILLION);
- B) UNPAID OBLIGATIONS OF DEVELOPMENT PROJECTS FOR 1352, 1353 AND 1354 WILL BE PAID OUT OF 1355 ALLOCATIONS;
- C) MINISTRY OF WAR PERMITTED ONE TIME 10 PERCENT SWING WITHIN AUTHORIZED BUDGET WITH APPROVAL OF PRIMIN AND MAJIDI'S BUDGET COMMISSION;
- D) PAYMENT OF \$30.4 MILLION FOR EXPENSES OF RASTAKHIZ PARTY;
- E) GOVERNMENT IS AUTHORIZED TO APPROVE, IN ADDITION TO CREDITS TO BE APPROVED FOR 1355 AND 1356 BUDGETS, THE SUM OF 150 BILLION(\$2169 MILLION) FOR DEVELOPMENT OF GOVERNMENT ENTERPRISES AND TO SECURE THE REQUIRED RESOURCES FROM LOCAL OR FOREIGN LOANS(NOTE: WILL ATTEMPT OBTAIN CLARIFICATION OF THIS UNUSUAL, EXTRABUDGETARY ALLOCATION).

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PAGE 02 TEHRAN 01288 03 OF 03 081734Z

#### 9. BUDGET SPEECH:

IN PRESENTIN BUDGET, PRIMIN HOVEYDA OUTLINED IRAN'S FOREIGN AND DOMESTIC POLICIES. ON DOMESTIC SIDE, HOVEYDA STRESSED NEED FOR CONTINUED GROWTH AND CRITICIZED INTERNATIONAL OIL COMPANIES FOR FAILING TO PURCHASE ENOUGH OIL TO ALLOW CONTINUING IRANIAN ECONOMIC DEVELOPMENT WITHOUT HAVING TO TURN TO DEFICIT FINANCING. HOVEYDA ALSO WARNED THAT IF OIL COMPANIES DID NOT LIFT MORE OIL, GOI WOULD HAVE TO REVIEW FOREIGN AID POLICIES, SINCE EVEN NOW IRAN HAD BEEN FORCED TO CURTAIL SOME FOREIGN ASSISTANCE. PRIMIN TIED EXPANDED EDUCATION BUDGET TO GROWING NEED FOR SKILLED

MANPOWER, AND HE COMMITTED GOVERNMENT TO "REDOUBLED" EFFORT TO ALLEVIATE PRESSING HOUSING SHORTAGE. HE CALLED ON PARLIAMENT, GOVERNMENT AND RASTAKHIZ PARTY TOGETHER TO PRESS ANTI-CORRUPTION DRIVE SO IRANIANS WOULD GET MORE FOR THEIR MONEY IN BOTH PRIVATE AND PUBLIC SECTORS AND THUS HELP UNDERCUT INFLATION.

10. ON FOREIGN SIDE, HOVEYDA REPORTED IRAN ENJOYED CLOSE RELATIONS WITH ALL COUNTRIES. HE EMPHASIZED THAT TIES WITH ARAB STATES ARE NOW EXTREMELY CORDIAL AND RELATIONS WITH TURKEY AND PAKISTAN, BOTH IN RCD AND CENTO CONTEXT AND BILATERALLY ARE DEEP AND GENUINE. HE STRESSED IRAN'S BELIEF THAT INTERNATIONAL ECONOMIC AND COMMERCIAL RELATIONS MUST BE FUNDAMENTALLY REVISED, AND EXPRESSED HOPE PARIS CONFERENCE ON INTERNATIONAL COOPERATION WOULD BRING EFFECTIVE AND DESIRABLE CONCLUSION TO THIS ISSUE. ON DEFENSE MATTERS, PRIMIN SAID CONTINUED STRENGTHENING OF IRAN'S FORCES CONSTITUTES ONE OF GOVERNMENT'S MOST IMPORTANT PRIORITIES. (COMMENT: MODEST 7.9 PERCENT INCREASE IN WAR MINISTRY'S BUDGET, WHICH IS SMALLER PROPORTION OF TOTAL BUDGET THAN LAST YEAR'S, IS PROBABLY ONLY THE MAJOR PART OF THE ALLOCATION, WITH SIGNIFICANT OTHER MILITARY FUNDING INCLUDED ELSEWHERE IN BUDGET). COMMENTING THAT "THE WEAKNESS OF STATES IS THE GRAVEST THREAT TO PEACE AND THE CLEARER INVITATION TO ATTACK," HE SAID IRAN HAD NOT ONLY A NATIONAL BUT A REGIONAL RESPONSIBILITY TO MAINTAIN ITS DEFENSE FORCES AS AN IMPORTANT FOUNDATION FOR PEACE IN THE REGION.

11. PRIMIN'S ECONOMIC THEMES BEGAN ON ORIGINAL NOTE THAT IRANIANS MUST ASK NOT ONLY WHAT THE REVOLUTION HAS DONE FOR THEM BUT WHAT THEY HAVE DONE FOR IT AND WHAT THEY CAN DO IN THE FUTURE. HE THEN RELATED THE BUDGET PROPOSALS TO THE MORE RECENT PRINCIPLES 13 TO 17 OF THE SHAH PEOPLE REVOLUTION. EMPHASIS IN THE BUDGET LIMITED OFFICIAL USE

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PAGE 03 TEHRAN 01288 03 OF 03 081734Z

IS ON DECENTRALIZATION WITH 19 MINISTRIES HAVING DECENTRALIZED BUDGET COMPARED WITH TWO IN 1354. HE RECOGNIZED THE CONTINUING SHORTAGE OF SKILLED WORKERS AND INFRASTRUCTURE INADEQUACIES. HIS SIX BUDGET KEYNOTES WERE: 1) PRESERVATION AND CONTINUATION OF ECONOMIC AND SOCIAL PROGRESS; 2) STRENGTHENING NATIONAL DEFENSE; 3) MAINTAINING RELATIVE STABILITY OF PRICES AND FIGHTING PROFITEERING AND ALL OTHER MODES OF CORRUPTION; 4) THE EXTENSION OF SOCIAL SECURITY AND GENERAL WELFARE; 5) THE EXTENSION OF EDUCATION FACILITIES AND THE IMPROVEMENT OF EDUCATIONAL QUALITY AT ALL LEVELS WITH SPECIFIC REFERENCE TO WAGE AND SALARY STRATA; AND 6) HELPING MEET THE SHORTAGE OF HOUSING WITH SPECIAL REFERENCE TO WAGE AND SALARY EARNING STRATA.

12. COMMENT:

UNTIL WE OBTAIN CLARIFICATION OF SOME POINTS FROM PBO AND ANALYZE CAREFULLY BUDGET DOCUMENT, WE EXPRESS TENTATIVE VIEW THAT



DESPITE SOME MISGIVINGS ON THE REVENUES PROJECTIONS, THE 1355  
BUDGET IS BASICALLY SOUND AND MODERATELY INDICATIVE OF INFLATION  
THROUGH DEFICIT FINANCING. CLEARLY, THE GOI INTERNAL DEBATE WAS  
WON BY THOSE FAVORING THE PATH OF SUSTAINED MOMENTUM EVEN IF  
THE BITTER PILL OF NEW DEBT HAD TO BE SWALLOWED. REVENUE ALLO-  
CATION DECISIONS SEEM TO FAVOR HIGHER VALUE ADDED INVESTMENT  
AND SOCIAL NEEDS. RELATIVE EXPENDITURE SHIFTS TO HOUSING, EDU-  
CATION AND RURAL COOPERATIVE ARE COMMENDABLY WEALTH DISTRIBUTIVE  
IN IMPACT. INCREASES IN THE CAPITAL BUDGET, EXPECIALLY IN  
ROADS, ARE SURPRISING AND BODE WELL FOR US COMMERCIAL PROS-  
PECTS. THE STRESS ON DEVELOPMENTAL BALANCES AND COST CONTROL  
IS OVERDUE.  
HELMS

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